WELLINGTON-ALTUS
PRIVATE WEALTH

- INVESTMENT -
INSIGHT

SPRING 2022

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Time: The Investor's Great Ally

It has been said that "*history is just one damned thing after another.*" This may be particularly fitting today. For many of us, there has been little respite from the challenges of the past two years. Looking forward, it seems as though there is no shortage of new challenges. As we try to navigate the return to normal from the pandemic, we are now confronted with new uncertainties arising from the Russia/Ukraine conflict.

Financial markets are often quick to respond to uncertainties and the volatility we have seen as of late is no exception. It may feel particularly unsettling since the markets were largely immune to sustained periods of volatility for much of last year. However, we shouldn't forget that volatility plays a common role in the equity markets — market drops of at least five percent occur every seven months, on average.[1]

The escalating geopolitical tensions emerging from the Russia/Ukraine conflict have added to current worries, as the world responds to this new crisis. This has created new market headwinds and put upward pressure on the price of oil and other commodities. We continue to monitor the evolving situation and the potential effects on the financial markets.

At home, as we move forward from the pandemic, we are faced with new challenges. Central banks now have the unenviable task of normalizing the accommodative policies put in place to support economies through the pandemic: increasing interest rates and reducing the size of their balance sheets, while addressing high levels of inflation.

There are positive factors that may help to balance this change. Household wealth, across all income levels, is higher than it has ever been.[2] Improving labour market conditions are expected to support households. And, many analysts suggest that the central banks can increase rates quite a bit without adversely affecting credit conditions.

With heightened volatility, keeping expectations on an even keel is not an easy task. During these times, it may be helpful to remember that we have faced many challenges throughout history that have made it difficult to assess future prospects. Yet, the equity markets have shown remarkable resilience over the longer term.

Consider that over the past 30 years, we have experienced credit and debt crises, recessions, many changing central bank policies — and even war. And, yet, the markets, as measured by the S&P/TSX Composite Index, returned an average of over six percent annually during this time, not including reinvested dividends.[3]

Having a longer-term view reminds us that the markets have continued to persist and advance, despite the many challenges. Indeed, time can be one of the investor's great allies.

As the current headlines continue to test our resolve, don't lose sight of your own wealth goals: patience, alongside careful monitoring and prudent adjustments through our support, should stand you in good stead. Continue to have confidence in your plan and allow your assets to keep working hard for you. Please call if you have any concerns — we are here to help.

1. Based on S&P/TSX Composite Index over 30 years, 1/3/92 to 1/5/22; 2. www.reuters.com/business/finance/us-household-wealth-rose-record-1417-trillion-q2-fed-says-2021-09-23/ 3. Index close, 1/3/92 – 3,495.60; 1/5/22 – 21,335.60.

In This Issue

NAVIGATING UNCERTAINTY

Keeping Perspective During Volatile Times

Recent market volatility has prompted some investors to rethink their perspective on risk. However, reacting to short-term market fluctuations is not usually advised. Instead, we continue to focus on the importance of having a plan in place with a view for the longer term, making prudent adjustments and rebalancing a portfolio where required. Here are some things to consider to help keep perspective during volatile times:

Why we rebalance portfolios: helping to avoid market timing — Rebalancing an investment portfolio involves adjusting the proportion of asset types to ensure it reflects your continuing goals. This is done because, over time, the value of the securities that make up your portfolio can rise and fall at different rates. This will change the asset allocation, which has been established to reflect your personal risk profile, goals and time horizon.

Often, rebalancing involves trimming winners to get back to the target asset allocation level. One of the virtues of rebalancing is that it helps to take the emotion out of the investing decision-making process. The rebalancing decision should occur when the portfolio's balance is not in check, and not in response to the markets being under pressure. This can allow investors to better achieve the objective of selling high.

Don't discount diversification — Diversification continues to remain an important tool in an investor's portfolio, helping to manage risks and allow for more consistent longer-term results. Consider that a well-diversified portfolio often means that, by nature, the value of some components of the portfolio may fall when others may rise.

Cash continues to have a cost — Periods of volatility are not a time to run and hide. For investors, while having some cash on hand to take advantage of new investment opportunities is wise, holding too much may not make sense in these days of low interest rates and higher inflation. The low returns achieved through savings accounts or Guaranteed Investment Certificates are offset by just moderate inflation levels, so sitting on cash is likely to yield a negative real rate of return.

Volatility may bring opportunity — Alongside the earnings recovery and growth of many companies, volatility has helped to temper valuations. Consider also that high uncertainty can sometimes be the buyer's ally. Periods of downward volatility may offer the opportunity to purchase investments at relatively lower prices. In the words of renowned investor John Templeton: "invest at the point of maximum pessimism."

Don't overlook your time horizon — It may be easy to become impatient with investments that perform below expectations in the short term, especially after last year's equity market performance in which many investments continued their upward advance with little interruption. Returning volatility reminds us that patience can be one of the longer-term investor's great virtues. History has shown that over shorter time frames the markets can often be unpredictable, yet over the longer term they have continued to advance. Don't overlook the profound impact of time in the markets.

Have confidence in your plan — Volatility should be a reminder that growth does not occur at a steady rate. Your plan has been put in place with the objective of creating a portfolio that can weather the inevitable short-term storms to deliver longer-term returns. We continue to monitor your investments during these volatile times, making prudent adjustments where necessary to account for changes in the marketplace. Have confidence in your plan and allow your assets to keep working hard for you.

DID YOU KNOW?

The RRIF: Four Things You May Not Know

If you have yet to reach the retirement age, consider the opportunity to think ahead to the time when you will eventually access retirement funds. Here are four things you may not know about the Registered Retirement Income Fund (RRIF).

1. You can convert the RRSP to the RRIF earlier than age 71. The RRSP matures by the end of the calendar year in which the holder turns age 71 and is often converted to the RRIF at that time. However, you are able to open the RRIF earlier than this age. Minimum withdrawal payments will still be required, but not until the calendar year following the year that the RRIF account is opened.

2. You can hold the RRSP and RRIF at the same time. While the RRIF is usually used by an investor to transfer funds once the RRSP matures, there may be instances in which you may want both. If you need to generate pension income to take advantage of the federal pension income tax credit, you could open a small RRIF at the age of 65. At the same time, you can still continue operating the RRSP to capture ongoing tax deductions from your contributions. Consider also that you can notionally split up to 50 percent of eligible pension income (which includes RRIF income from age 65) with a spouse (common-law partner).

3. You are able to convert the RRIF back to the RRSP. If you've converted funds to the RRIF earlier than age 71 and realize that it's no longer to your benefit, you are able to convert it back. You may decide to do an early conversion if you retire early, take a sabbatical or have an extended leave from work, since the loss of income means you may be in a lower tax bracket or you may need funds. However, if you return to work, it may be beneficial to resume the RRSP.

4. You can base RRIF withdrawals on a spouse's age. If you have a younger spouse, it may be useful to use their age to result in a lower minimum withdrawal rate for your RRIF. Be aware that this must be done when first setting up the RRIF and before you have received any payments, so plan ahead.

If you have any RRIF questions please get in touch. If you're turning 71 in 2022, let's discuss options for the maturing RRSP before year end.

TAX SEASON IS HERE ONCE AGAIN

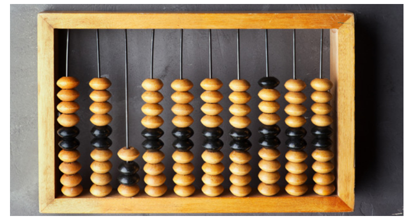
Consider These Ways to Be Tax Savvy

Spring is here again and with it brings personal income tax season. Many of us feel we pay too much tax and there may be actions we can take to help minimize these liabilities. This may be especially important in these times of high inflation. Here are some ideas:

Consider professional tax support — The support of tax professionals can help to ensure your tax planning takes into consideration current and proposed rules. This support can also help to prevent costly mistakes, such as incorrectly completing tax returns or neglecting to claim tax credits. It can be particularly beneficial if your situation is more complicated, such as where a divorce is involved or if you hold a significant portfolio of foreign assets. As we grow older, a professional advisor can provide continuity from year to year, which may become important if individuals experience health issues, incapacitation or the death of a spouse. Many accountants are well placed to assist with estate planning activities, including the transfer of assets upon death.

Be aware of the evolving tax rules — Make sure that your tax planning accounts for the latest tax rules. Remember that these rules continue to evolve. Since the start of 2022, the Canada Revenue Agency (CRA) has announced some of the following changes that may impact certain tax positions. While these changes may not apply to personal income tax season, they are examples of the evolving landscape:

- **Work-from-Home Tax Credit** — Those who worked from home due to the pandemic are entitled to claim up to $500 of home expenses. As with the 2020 tax year, the CRA has issued a simplified Form T2200. However, the temporary flat-rate option remains available to taxpayers for both the 2021 and 2022 tax years.
- **Automobile Expenses** — For 2022, the limit on the deduction of tax-exempt allowances paid to employees who use personal vehicles for business purposes has increased by two cents, to 61cents per kilometre (km) for the first 5,000 km driven and 55 cents thereafter for all provinces. Mileage rates were last raised in 2020.
- **Expanded Trust Reporting** — Expanded annual reporting requirements for trusts, including beneficial ownership information, were anticipated for the 2021 tax year based on the last federal budget. In the first quarter of 2022, the government confirmed that this would no longer apply for 2021. However, draft legislation was introduced in February, which is expected to be passed and will apply to trusts with taxation years ending after Dec. 30, 2022.
- **A Pending Luxury Tax** — The 2021 federal budget proposed a luxury tax expected to be introduced at the start of 2022 and retroactive to April 2021. In March, draft legislative proposals were released and the tax is now expected to come into effect on September 1, 2022.[1] The proposed levy is either 10 percent of the value of the purchase above a certain threshold ($100,000 for new cars/aircraft; $250,000 for boats) or 20 percent of the full value, whichever is less.



- **Cryptocurrencies** — The CRA continues to conduct audits on cryptocurrencies to crack down on tax non-compliance. Last year, the CRA won an order which allows it to collect personal and transactional information about the largest users from Canada's largest cryptocurrency exchange.[2] Owning cryptocurrency itself is not taxable; however, be aware that there may be tax consequences for trading or exchanging cryptocurrency, including disposing of one cryptocurrency to obtain another.

Make tax planning a year-round exercise —Year-round tax planning can start with maximizing tax-advantaged accounts like Tax-Free Savings Accounts (TFSAs) or Registered Retirement Savings Plans (RRSPs). It may include adjusting asset location as investment returns, i.e., bond interest, Canadian and foreign stock dividends, capital gains, may be taxed differently depending upon where they are held, i.e., RRSP, TFSA or non-registered accounts. When it comes to your wealth plan, we're here to discuss tax-planning opportunities to help you keep more of your hard-earned dollars.

A tax refund? Put it to work! — If you receive a tax refund, what will you do with it? Last year, 19 million Canadians received a refund averaging $1,801.[3] Yet, only 18 percent planned on investing it in a TFSA, RRSP or RESP.[4] Consider the potential upside: investing this amount each year for the next 25 years at an annual rate of return of 5.5 percent would yield almost $100,000 in that time.[5]

For assistance with tax-related investing matters, please call the office.

1. www.canada.ca/en/department-finance/news/2022/03/government-releases-draft-legislative-proposals-to-implement-luxury-tax.html; 2. www.forbes.com/sites/taxnotes/2021/04/29/cryptocurrency-tax-data-requests-its-easier-to-go-fishing-in-canada/; 3. "Canadians Are Stalling on their Taxes," J. Golombek, Financial Post, April 1, 2021; 4. www.newswire.ca/news-releases/confusion-dread-and-fear-of-owing-money-fuel-tax-filing-procrastination-in-canada-860977490.html; 5. Compounded annually at 5.5%, assuming no fees or taxes.

AN ADDED LAYER OF PROTECTION FOR INVESTORS

Nominate Your Trusted Contact Person

With a rise in sophisticated cybercrimes and with increasing concerns over the financial well-being of investors, especially as we age, the "trusted contact person" (TCP) has been introduced to help provide an extra layer of protection. The TCP is someone you appoint and for which we have your written consent to contact if we have concerns about the decision-making on your accounts or if we are unable to contact you. The TCP has no legal authority to make any financial decisions or direct transactions on your account. They do not replace a trading authority or power of attorney appointed to act on your behalf.

While you may not feel that there is a current need for a TCP, implementing this safeguard now may help to provide protection down the road. As such, it is recommended to select someone who is trusted, mature and knowledgeable about your personal situation and support network. This individual should be capable of speaking with you, and to us, about your well-being and potentially sensitive topics such as your physical or mental health status. It may be beneficial to select someone who is familiar with you on a consistent basis and has no potential authority now or in the future. You are able to change who you designate or revoke designations at any time.

For more information, or to nominate a TCP for your existing accounts, please get in touch.

Combatting Higher Prices: Finding Ways to Deal with Inflation

As the theme of inflation continues to dominate the financial headlines, investors may be wondering what steps can be taken to combat rising prices.

Higher inflation has been more persistent than many expected, largely driven by the anomalies of the pandemic — most significantly on the supply side, due to supply chain and labour market issues still lingering from the economic shutdowns. Now, we may be facing continued headwinds as a result of the conflict in Europe.

Consider, also, that inflationary expectations can help to drive inflation.[1] Perhaps the most extreme case in recent times belongs to Zimbabwe. People were so accustomed to expecting higher inflation that it became somewhat self-fulfilling. In 2009, Zimbabwe's inflation rate hit 230,000,000 percent. Prices would change by the minute, but the country kept printing money. At the height of their economic problems, they issued a one hundred trillion dollar bill — the largest denominated note ever circulated. When the Zimbabwean dollar was abandoned as the official currency, the hundred trillion dollar bill was only worth about US$0.40.[2]

Of course, we don't expect similar hyperinflation. It is likely that inflationary pressures will temper as things return to normal. However, there's little dispute that inflation is here, at least for the short run, so consider these ways to help deal with inflation.

Don't overlook the merits of being invested. History has shown that over longer time periods (and even despite short-term volatility), equity market returns outperform inflation.[3] This is a good reminder of the merits of staying invested. Now may be a great time to review your finances: do you have available contribution room in a TFSA or RRSP, or funds sitting idle that could be invested to benefit your future?

Better tax planning may help put funds back into your hands. Inflation is often referred to as the "silent tax." As such, why not consider tax planning exercises to help put funds back into your hands? It is personal income tax season — an opportunity to get organized and avoid overlooking important deductions or savings on your tax return. Tax planning should be a year-round exercise: there may be opportunities for income-

splitting with a spouse, contributing to tax-advantaged accounts, or planning for a small business.

Consider a budget (or help others!). A budget may be especially helpful for those on fixed incomes, such as seniors or younger folks just starting out. It can help to provide a full picture of inflows and outflows, and determine which costs are necessary and what adjustments can be made to account for any increases from inflation. Ironically, the calculation of the official measure of inflation, the CPI, doesn't include such items as gasoline and groceries, everyday living expenses incurred by almost everyone — and for which costs have gone up significantly.

In Jest: A Parting Thought

If you want to become an instant "trillionaire," you can buy the Zimbabwean note on eBay. The irony is that the one hundred trillion dollar bill is worth more today than when it was in circulation: around US$200, which represents a whopping "appreciation" of about 61 percent per year since 2009 and certainly one that has surpassed inflation!

1. https://econofact.org/thinking-can-make-it-so-the-important-role-of-inflation-expectations; 2. http://cnn.com/2016/05/06/africa/zimbabwe-trillion-dollar-note/index.html; 3. www.cnbc.com/2021/11/16/as-inflation-rises-here-are-opportunities-to-make-and-save-money-.html